Statement Of
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Before the Subcommittee on Energy & Mineral Resources House of Representatives
" The Impacts of High Energy Costs to the American Consumer"

May 19, 2005

Chairman Gibbons and Ranking Member Grijalva, thank you for the opportunity to provide comment on this very timely issue of the impact of high energy costs to consumers.

The Industrial Energy Consumers of America (IECA) is a 501 (C) (6) nonprofit organization created to promote the interests of manufacturing companies for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets.

We urge the Congress to pass comprehensive energy legislation this year. We especially request that Congress and the Administration take action to increase supplies of natural gas this decade by removing areas from moratoria to allow for greater access to an abundant supply of domestic natural gas.

Eighty five percent of the lower 48 states offshore acreage has been place under congressional and executive moratoria. We have the most restrictive offshore policies in the world and the most stringent environmental regulations to ensure that production of natural gas can occur without environmental concern.

This June will be the five year anniversary of the beginning of the natural gas crisis. It was in June of 2000 that natural gas prices averaged above $4.00 per million Btu, a price level that immediately began to impact the competitiveness of U. S. manufacturing. One by one manufacturing plants were permanently shut down or idled, production was shifted overseas and resulted in a loss of 3.0 million relatively high paying jobs. Today, with a brisk economic recovery manufacturing is still down 2.5 million jobs.

Natural gas prices continue to remain very high. Prices on the New York Mercantile Exchange (NYMEX) for the natural gas futures contract is currently at the $6.00 per million Btu level. In November, 2004 prices reached levels of just under $10.00 per million Btu.

Had it not been for industrial "demand destruction" as a result of high natural gas prices, and the resulting decline in consumption by the manufacturing sector, together with a cool summer and a mild winter, we would potentially be facing rationing of natural gas.

It is important to elaborate on that point. Since the natural gas crisis began in 2000, industrial natural gas demand, according to the Energy Information Administration, fell by 9 percent because of high natural gas prices, freeing up about .8 TCF of natural gas. This "demand destruction" increased the availability of natural gas for all other consumers by 3.5 percent of total U. S. consumption.

At the same time, U.S. production fell by 4.92 percent from year 2001 to 2004 or .97 TCF. This is despite record well completions by the exploration and production industry.

EIA's 2005 Annual Energy Outlook shows U.S. demand for natural gas of 25.4 TCF in 2010. This is an increase of 3.3 TCF over 2004 levels. Supply of this increment is dependent on increased domestic production (+1.5 TCF) and a quadrupling of LNG imports (+1.87 TCF) and imports from Canada decline. Our members are not confident that the U.S. is taking the actions necessary to create this supply and anticipate that continued industrial demand destruction will result. Industrial natural gas usage in 2004 was just over 7 TCF so a shortfall of this scale will be very significant and manufacturers will not be able to wait another 5 years for supplies to catch up.

The point is the U.S. has a serious natural gas crisis that has the potential to get much worse before it gets better. And, sound energy policy is not "praying for a cool summer and a warm winter." In the mean time, we will continue to witness the "dismantling of U.S. manufacturing" that built facilities based on globally competitive natural gas prices for fuel and feedstock.

Five Years After the Natural Gas Crisis Started

• The wholesale price of natural gas that manufacturers pay has increased from $2.11 per million Btu in 1998 to $6.05 per million Btu in year 2004, a nearly 300 percent increase.

• The U.S. is the only country in the world that does not fully utilize its natural resources. A significant amount of natural gas resources remain in moratoria and cannot be touched. Meanwhile, countries like the UK, Norway and Australia continue to expand offshore drilling.

• The NYMEX natural gas futures contract has the distinction as the most volatile commodity in the world.

• The US has the highest sustained price of any industrialized country in the world.

• The natural gas crisis has cost consumers nearly $200 billion. The amount does not include the cost of lost jobs or the increased cost of electricity.

• As U.S. manufacturing shut down facilities, imports of energy intensive products that had been produced here have increased exponentially, increasing the trade deficit.

• The “supply gap,” the amount of natural gas that the United States depends upon from Canada and LNG imports has increased 42 % from 2.6 TCF in 2001 to 3.7 TCF in 2004, a increase of 1.1 TCF. This is significant given total US demand in 2004 was 22.2 TCF. Canadian exports to the U.S. have decreased and LNG has shown only modest increases.

• As a result, manufacturing is not spending their “growth capital” in the U.S. in large part because of the high and volatile price of natural gas and energy in general relative to other places in the world.

The U.S. has the most restrictive offshore policies in the world

Every major country that has natural gas reserves is increasing its production. While countries like the United Kingdom, Norway and Australia are actively increasing their offshore production, the United States has the most restrictive offshore policies in the world. The U.S. Department of the Interior reports approximately 85 percent of the lower 48 state offshore acreage has been placed under congressional and executive moratoria.

Starting in 1982, 23 years ago, when natural gas was plentiful and low cost, Congress and most of our Presidents proceeded to place various areas of the country both on-shore and off-shore in moratoria. The offshore areas encompass a large part of the Gulf of Mexico and essentially all of the Atlantic and Pacific Oceans. These areas have enormous amounts of natural gas that could easily supply our increasing demand for this environmentally friendly clean fuel source through most of this century. But given our supply crisis, we no longer have the luxury of keeping “all” of these areas in moratoria. Improvements in technology have negated the original environmental basis for initiating the moratoria.

Producing more natural gas helps the environment

It is difficult to continue to make environmental progress without greater amounts of natural gas until newer commercially available alternatives are created. Technologies like that are decades away. Natural gas is our cleanest burning and less polluting fuel. The only commercial energy sources that are cleaner are renewable energy which cannot be produced in significant quantities and is not reliable or cost competitive and nuclear energy which has its own set of issues. For that reason, increasing natural gas supply is imperative for environmental improvement.

For example, natural gas is being used in homes and buildings to replace using heating oil. It is used to displace coal in electricity generation. It is used to make hydrogen that is then used as a fuel and/or used to produce low-sulfur gasoline for cars and trucks. Low sulfur gasoline cleans the air. In each case, natural gas replaces a fuel with higher emissions.

While both are needed domestic supply is preferred over imported LNG

In the next five years, which will be critical to many manufacturers, significant expansion of both domestic production and imported LNG is essential. As consumers, we welcome all supply alternatives but increasing our dependence on imported LNG has major disadvantages.

Almost all LNG supply will come from the same countries that we are dependent upon for crude oil. These are the same countries that formed the OPEC oil cartel that is controlling the supply of oil to the world and thus the price. A news story dated April 27, 2005 reports that these same countries are meeting to form a LNG cartel. Beyond the immediate crisis, we need to determine our domestic production capabilities and then balance our needs with imported LNG.

Producing offshore natural gas has a tremendous environmental record

Producing offshore natural gas has a tremendous environmental record. There are over 4000 offshore production

platforms. Annually this production equals approximately 4.7 trillion cubic feet per year or about 23 percent of U.S. domestic consumption. As a result of a well blow-out 36 years ago, the environmental regulations they operate under are the most stringent in the world. And, as a testament to regulation and improved technology, there was no environmental damage this past summer when two hurricanes hit the Gulf of Mexico production platforms with full force.

A government report dated April 19, 2005 by the Mineral Management Service (MMS) of the U.S. Department of Interior “estimates that from 1985 – 2001, offshore facilities and pipelines accounted for two percent of the volume of oil released into U.S. waters. Furthermore, according to the MMS, ninety-seven percent of offshore spills are one barrel or less in volume. A much larger amount of oil enters American waters through either land-based human activity or natural seepage emanating from the seafloor.” In conclusion, producing offshore natural gas can and has been done with environmental safeguards.

Thank you.